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S E C R E T SECTION 01 OF 03 KUWAIT 002729

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COMMERCE FOR DEPUTY CHIEF OF STAFF SCHWAN
COMMERCE FOR ITA/MAC PHALE, COBERG
COMMERCE FOR ITA/USFCS/DG HERNANDEZ

E.O. 12958: DECL: 07/03/2016
TAGS: [BEXP](#) [EINV](#) [KIPR](#) [OVIP](#) [PREL](#) [KU](#)
SUBJECT: SCENESETTER FOR COMMERCE SECRETARY GUTIERREZ'S
VISIT TO KUWAIT

Classified By: CDA Matt Tueller for reason 1.4 (b) and (d).

11. (U) See action request in paragraph 20.

12. (C/NF) Welcome to Kuwait, Secretary Gutierrez. Your visit comes after historic parliamentary elections in which women voted for the first time and pro-reform candidates won a clear majority. As required by law, the cabinet resigned following the elections. The Amir has already announced that Shaykh Nasser Al-Mohammed Al-Sabah will continue as Prime Minister and we expect the other new cabinet members will be named in advance of the swearing in of Parliament on July 12. If the timing of your stop in Kuwait permits meetings with the Amir or other senior GOK officials, it presents an excellent opportunity to recognize the robust U.S.-Kuwait trading relationship, and to press for further economic liberalization that would accelerate the opening of Kuwait's economy.

Political Developments

13. (C/NF) Your visit comes at a watershed moment in Kuwait's democratic development. Pro-reform candidates won a resounding victory in the June 29 parliamentary elections as voters sent a clear message to the Government on the need for political reform to combat corruption. Pro-reform MPs now have a clear majority (34) in the 65-member parliament. Overall Islamist representation increased from 15 to 18 seats with the bulk of these gains going to the Islamic Constitutional Movement (ICM), the political arm of the Kuwaiti Muslim Brotherhood. Although female turnout was low and none of the 27 female candidates were elected, women's participation in these elections for the first time in Kuwait's history had a tremendous impact and directly contributed to the reformers' victory. The outcome of the election demonstrates the wellspring of popular support for reform and presents a direct challenge to the government, and to the ruling Al-Sabah family in particular. The challenge for reformers will be holding together the fragile liberal-Islamist coalition at the heart of the pro-reform alliance. If it holds together, this pro-reform alliance could be a force for political change.

Market Summary

14. (U) The Kuwait economy is dominated by petroleum, which accounts for over 90 percent of its export earnings and over 80 percent of its budget revenues. Given its single natural resource, Kuwait manufacturing is dominated by oil refining

and downstream petrochemical processing. The non-oil manufacturing and agriculture sectors are statistically less significant given Kuwait's oil and oil reserves position. The majority of non-oil manufacturing companies are engaged in food processing, packaging and light industry, including the manufacturing of building materials and residential furniture.

15. (U) The Kuwaiti economy is relatively small, with 2005 GDP being approximately USD 56.6 billion. Kuwait's primary export is oil, however it imports almost all capital equipment, agricultural commodities, processed foods, manufacturing equipment and consumer goods. Kuwait two-way trade is not very diversified with Kuwaiti exports to the United States, Japan and Korea accounting for over 40% of all Kuwaiti export earnings. Likewise, the United States, Germany and Japan account for approximately 35 percent of all foreign imports to Kuwait. The United States continues to remain a leading trading partner with Kuwait in total bilateral trade.

16. (U) Automobiles and automotive parts account for approximately one third of the USD 1.9 billion exported from the United States to Kuwait. Oil and gas field equipment, telecommunications and IT equipment, electric generator sets, medical equipment, building materials and supplies, and electronics are also leading export sectors for U.S. firms.

Market Trends

17. (U) Kuwait is undergoing significant expansion in the building and construction industry. The GOK is currently involved in an ambitious building program that includes the

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construction of three new urban centers, major highways, a new container terminal and transportation support infrastructure. Private construction and project development, like in other GCC urban centers, is also moving forward.

18. (U) With the traditional export sector of automotive, oil and gas, computers/ITC, telecommunications equipment and construction equipment remaining strong and given the new pace of urbanization and construction occurring in Kuwait, export opportunities should increase in the near to mid term.

Kuwait's Commercial Ties to Iraq

19. (U) Kuwait currently is a key logistics service center and builder for Iraq. In the area of logistics and supply chain support, Kuwait-based Public Warehouse Company was awarded a Primary Vendor Contract from DOD to supply perishables and foodstuffs for CENTCOM coalition forces in Iraq and Afghanistan. The value of the food delivery contract is in excess of USD 500 million per annum. Likewise KGL shipping also is in business delivering equipment and materiel to DOD both in Iraq and Kuwait. In support of U.S. forces in Iraq, Kuwait has positioned itself to be a leading depot-level maintenance, repair and upgrading facility for heavy transportation and construction equipment used by U.S. forces in Iraq. Both the Al-Bahar Group (upgrading, refurbishing and executing the overhaul of Caterpillar equipment used by the Army Corps of Engineers) and Global Zone/Omar Al-Mutawa (upgrading and armoring of Humvees) have landed major contracts to support U.S. equipment used in the Iraq campaign. One must not assume that Kuwaiti businesses are only supporting the U.S. military mission in Iraq; First Kuwait Construction is currently building the U.S. Embassy in Baghdad, and Nebraska-based Light Form Technologies is currently ramping up production cooperation in Kuwait to support the supplying of concrete construction building materials for the Iraqi construction market.

Market Access, Liberalization, and TIFA

¶10. (U) The United States and Kuwait signed a Trade and Investment Framework Agreement (TIFA) in 2004. The agreement forms, at a basic level, a "road map" where Kuwait must bring both its legal framework and its regulatory structure in line with its obligations to the WTO and the international trading community. It is not investment or tax incentives that bring business, but rather a transparent and predictable business and investment climate, meeting international and WTO norms and expectations, that will make for an attractive commercial and investment environment. Within the TIFA, several key market access areas are being addressed.

IPR

¶11. (U) Kuwait needs to do a better job of protecting intellectual property rights, which should be achieved through passage, implementation and enforcement of appropriate laws to protect copyrights, patents, trademarks, and to criminalize piracy. Kuwait was recently upgraded to the USTR Watch List on the annual Special 301 Report, and the Embassy hopes that progress over the previous year will accelerate further. In April 2006, the Embassy partnered with USPTO to host a well-attended three-day conference for Kuwaiti enforcement, prosecutorial, and judicial personnel.

Standards

¶12. (U) Kuwait eliminated its International Conformity Certification Program (ICC) for imports, and is in the process of developing a new standards regime called the Conformity Assessment Scheme. Import testing and inspection programs are a technical barrier to trade and are inconsistent with Kuwait's WTO obligations.

Taxation

¶13. (U) U.S. companies continue to face uncertainty with respect to tax calculation and even determining if and how much tax liability may be due in Kuwait. The Embassy's

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Economic and Commercial Sections are actively pursuing resolution of this long-standing business irritant.

Privatization

¶14. (U) A critical element in establishing reform momentum is privatization. The private sector in Kuwait has been crowded out by the public sector and the divesting of government-owned companies and parastatal enterprises would foster greater competition, efficiency and job creation. Privatization within the petrochemical industry is reflected in the highly profitable world-class Dow Equate joint venture.

¶15. (U) Further privatization and liberalization of the telecommunications market and the establishment of transparent and international norms in public procurement would send a strong signal that Kuwait is open and means business.

Assistance for Iraq

¶16. (S/NF) Kuwaiti support for USG goals in Iraq remains strong. Kuwait has also worked to repair its bilateral relationship with Iraq and recently hosted Iraqi Prime Minister Maliki on his first visit to neighboring Arab states. Kuwait also continues to support humanitarian projects in Iraq in the fields of education and health

through the Kuwait Fund. The Ministry of Foreign Affairs reacted positively to the USG,s recent request that the GOK assume a role on the Steering Committee of the UN,s proposed Iraq Compact.

¶17. (S/NF) From December 2002 - December 2004, Kuwait provided nearly USD 2 billion in free fuel for U.S. and Coalition Force use in Operation Iraqi Freedom (OIF) and as Assistance in Kind (AIK) for Kuwait-specific activities under the Defense Cooperation Agreement (DCA). Kuwait continues to provide jet fuel at a discounted rate, saving the military and U.S. taxpayers millions of dollars a year. It also provides in-kind support, estimated at \$1-2 billion annually, for the U.S. military presence in Kuwait. Kuwait's support facilitates the U.S. military's mission in Iraq and Afghanistan, both of which are supported by U.S. forces in Kuwait.

¶18. (U) Kuwait is also a generous financial supporter of countries and organizations where we have a strategic U.S. interest. It has provided financial assistance in the form of grants and concessionary loans to Iraq, Afghanistan, and the Palestinian Authority.

Assistance for Hurricane Katrina

¶19. (U) After Hurricane Katrina, the GOK demonstrated its friendship and its strong bond with the United States by becoming the largest donor in the world, with a pledged gift of \$500 million in assistance. Kuwait presented \$25 million to the Bush-Clinton Katrina Fund; another \$25 million to the American Red Cross through the Kuwaiti Red Crescent; \$50 million will be donated as petroleum derivatives or possibly cash proceeds from the sale of petroleum derivatives. The GOK has proposed providing the remaining \$400 million as a \$50 million for humanitarian relief and \$350 million in petroleum products pending parliamentary approval.

Action Request

¶20. (U) To facilitate preparations for your visit, post would appreciate a complete delegation list, arrival/departure information, as well as fiscal data for motor pool and support services.

For more Embassy Kuwait reporting, see:
<http://www.state.sgov.gov/p/nea/kuwait/?cable s>

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